

## Message Text

CONFIDENTIAL

PAGE 01 CAIRO 07303 01 OF 02 251333Z

45 40

ACTION SS-25

INFO OCT-01 ISO-00 AS-01 SSO-00 NSCE-00 /027 W

----- 067585

O 251233Z JUL 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 5395

C O N F I D E N T I A L CAIRO SECTION 1 OF 2 7303/1

EXDIS

AIDAC

EO 11652: GDS

SUBJECT: FY 1977 PROGRAM SUBMISSION

REF: STATE 169799

PART ONE OF TWO-PART MESSAGE

1. IN RESPONSE TO REFTTEL, WE ARE PRESENTING THE FOLLOWING MATERIAL FOR WASHINGTON CONSIDERATION IN ITS INITIAL REVIEW OF FY 1977 PROGRAM PROPOSALS.

2. GIVEN THE PURPOSE AND NATURE OF THE EGYPTIAN PROGRAM, MAJOR POLITICAL AND ECONOMIC ASSUMPTIONS ARE CRUCIAL TO THE DETERMINATION OF OPTIMUM SUPPORTING ASSISTANCE LEVELS FOR FY 1977.

A. POLITICAL OUTLOOK

ASSUMING A FURTHER INTERIM AND PARTIAL AGREEMENT BETWEEN EGYPT AND ISRAEL WILL BE REACHED IN 1975, WE FORESEE A PERIOD OF RELATIVE INACTION ON THE MEGOTIATING FRONT DURING 1976 AND EARLY 1977 WITH LITTLE OR NO VISIBLE PROGRESS TOWARDS A PERMANENT PEACE SETTLEMENT. THE ABILITY OF EGYPT TO WEATHER THIS PERIOD WITHOUT A MAJOR CHANGE IN ATTITUDE TOWARDS THE UNITED STATES AND OUR PEACE-MAKING ROLE COULD BE SORELY TRIED. PRESSURE FOR ACTION FROM MORE RADICAL ARABS WILL VERY LIKELY BE UNCEASING. AT  
CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 07303 01 OF 02 251333Z

THE BEST, ELECTION CAMPAIGNS IN THE UNITED STATES WILL DIVERT

ATTENTION FROM THE NEED FOR PROGRESS ON MIDDLE EAST PROBLEMS.  
AT THE WORST, CAMPAIGN ORATORY COULD RANKLE THE EGYPTIANS AND  
STIFFEN ISRAEL RESISTANCE TO FURTHER COMPROMISE.

IN THIS SITUATION, U.S. ECONOMIC ASSISTANCE PROGRAMS WILL  
HAVE TO ASSUME A MAJOR ROLE IN DEMONSTRATING CONTINUED U.S.  
INTEREST IN SUPPORTING EGYPT'S MODERATE STANCE ON THE POLITICAL  
FRONT AS WELL AS THE COUNTRY'S EFFORTS TO SPUR DOMESTIC ECONOMIC  
GROWTH. FAILURE TO PROVIDE MEANINGFUL LEVELS OF ASSISTANCE OR  
TO REQUEST LESS FROM CONGRESS FOR FY 1977 THAN FOR FY 1976 COULD  
RAISE SERIOUS QUESTIONS IN EGYPTIAN MINDS REGARDING U.S. INTENTIONS  
AND OBJECTIVES AND THE VALIDITY OF EGYPT'S CURRENT POLICIES.

#### B. ECONOMIC OUTLOOK

GIVEN THE POLITICAL OUTLOOK, PROGRESS ON THE ECONOMIC FRONT IN  
EGYPT WILL BE CRUCIAL TO PRESIDENT SADAT'S ABILITY TO STAY THE COURSE  
WITH THE UNITED STATES. SUCH PROGRESS WILL NOT BE EASY. EGYPT WILL  
NEED FURTHER, EXTENSIVE BALANCE OF PAYMENTS (B/P) SUPPORT IN CALENDAR  
YEARS 1976 AND 1977. WE SEE NO REASONABLE PROSPECTS, OUTSIDE OF  
MAJOR OIL STRIKES, THAT EGYPT WILL BE ABLE TO MAKE SIGNIFICANT STRIDES

DURING THOSE TWO YEARS TO CLOSE ITS B/P GAP. THE TRADE IMBALANCE  
AND DEBT SERVICING REQUIREMENTS WILL GROW RATHER THAN DECREASE.  
AS PROJECTED EARLIER IN CONNECTION WITH OUR EXAMINATION OF EGYPT'S  
NEED FOR EMERGENCY FINANCIAL ASSISTANCE THIS YEAR, THE COUNTRY'S  
TRADE DEFICIT IN CY 1975 COULD WELL EXCEED \$2 BILLION. WITHOUT  
POSITIVE ACTION BY EGYPT RE THE ARAB-ISRAELI CONFLICT, ARAB AID  
DONORS MAY WELL BE LESS RESPONSIVE TO EGYPT'S FINANCIAL PROBLEMS.  
OTHER DONORS WHO ARE RISING TO THE OCCASION IN 1975 MAY BE UNABLE  
TO MAINTAIN THEIR EFFORT IN SUCCEEDING YEARS. THUS, WE FORESEE  
CONTINUING, SERIOUS PROBLEMS FOR EGYPT IN MEETING ITS INTERNATIONAL  
FINANCIAL OBLIGATIONS.

AT THE SAME TIME, EGYPT'S ABSORPTIVE CAPACITY FOR DEVELOPMENTAL  
PROJECT AID SHOULD RISE APPRECIABLY WITH A) ISSUANCE OF A NEW FIVE-  
YEAR PLAN IN LATE CY 1975, PERMITTING A GREATER FOCUS ON PRIORITY  
AREAS, B) CULMINATION OF THE EXTENSIVE MASTER PLANNING FOR THE  
SUEZ CANAL AREA, AND C) MATURATION OF PROJECT DEVELOPMENT WORK  
NOW UNDERWAY. THUS, WE FORESEE NOT ONLY A GREATER NEED, BUT  
CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 07303 01 OF 02 251333Z

ALSO A GREATER EXPECTATION, FOR DEVELOPMENTAL ASSISTANCE.

3. IN BOTH POLITICAL AND ECONOMIC TERMS, THE LEVEL OF FY 1976  
FUNDING REQUESTED FROM CONGRESS WILL HAVE AN IMPORTANT BEARING  
ON THE DETERMINATION OF OPTIMUM LEVELS FOR FY 1977. PER REFTTEL,  
WE HAVE EXAMINED TWO ALTERNATIVE ASSUMPTIONS REGARDING FY 1976  
FINANCING: A) A TOTAL OF \$375 MILLION, THE FIGURE ESTABLISHED EARLIER  
FOR PROGRAM DEVELOPMENT AND PRESENTATION PURPOSES, INCLUDING THE

FIFTH QUARTER, AND B) A TOTAL OF \$500 MILLION, THE FIGURE DISCUSSED AT THE HIGHEST LEVELS WITH EGYPTIAN OFFICIALS.

4. \$375 MILLION LEVEL FOR FY 1976

THIS ALTERNATIVE HAS SERIOUS DRAWBACKS. FIRST, IT WILL FAIL TO MEET EGYPTIAN EXPECTATIONS NO MATTER HOW CAVEATED EARLIER DISCUSSIONS WERE. SECONDLY, A LARGE SHARE OF ANY FY 1976 LEVEL WILL BE TAKEN UP BY OUR COMMITMENT IN PRINCIPLE TO ALLOCATE \$100 MILLION FOR CY 1975 B/P SUPPORT, RAISING TOTAL AID IMPORT FINANCING FOR CY 1975 TO A TOTAL OF \$250 MILLION. SINCE FY 1977 FUNDS WILL NOT BE EFFECTIVELY AVAILABLE IN CY 1976, B/P SUPPORT FOR THAT YEAR MUST COME ENTIRELY FROM FY 1976 FUNDING. THUS, CONTINUATION OF B/P SUPPORT AT EVEN A REDUCED LEVEL IN CY 1976, SAY \$200 MILLION, WOULD LEAVE ONLY \$75 MILLION FOR PROJECT AID, HARDLY ENOUGH TO FINANCE THE PROJECTED CEMENT

PLANT ALONE. FURTHERMORE, THE RESULTING BREAKDOWN BETWEEN PROGRAM IMPORT FINANCING (\$300 MILLION) AND PROJECT AID (\$75 MILLION) WOULD BE

AN EASY TARGET FOR CONGRESSIONAL CRITICS. ALTERNATIVELY, A REDUCTION OF B/P SUPPORT FOR CY 1976 BELOW \$200 MILLION WOULD BE A SEVERE DISAPPOINTMENT TO THE EGYPTIANS AND COULD WELL UNDO THE POSITIVE IMPACT OF THE U.S. RESPONSE TO EGYPT'S NEED FOR AMERGENCY FINANCING SUPPORT THIS YEAR. THUS, WE CAN ONLY CONCLUDE THAT

CONFIDENTIAL

NNN

CONFIDENTIAL

PAGE 01 CAIRO 07303 02 OF 02 251400Z

45 40

ACTION SS-25

INFO OCT-01 ISO-00 AS-01 SSO-00 NSCE-00 /027 W

----- 067865

O 251233Z JUL 75

FM AMEMBASSY CAIRO

TO SECSTATE WASHDC IMMEDIATE 5396

C O N F I D E N T I A L SECTION 2 OF 2 CAIRO 7303

EXDIS

AIDAC

IN TERMS OF OUR RELATIONSHIPS WITH EGYPT WE SHOULD BASE OUR ASSUMPTIONS ON THE SECOND ALTERNATIVE, AN FY 1976 REQUEST

OF CONGRESS FOR \$500 MILLION.

5. \$500 MILLION LEVEL FOR FY 1976

ASSUMING A \$500 MILLION REQUEST IN FY 1976, WE SEE NO ALTERNATIVE TO A SPLIT BETWEEN PROGRAM AND PROJECT AID OF \$300 MILLION AND \$200 MILLION RESPECTIVELY, EVEN THOUGH THIS CONTINUES TO GIVE PROGRAM AID A PREDOMINANT POSITION. TOTAL B/P SUPPORT OF \$300 MILLION WOULD PROVIDE \$100 MILLION FOR CY 1975 AND \$200 MILLION FOR CY 1976. THE LATTER FIGURE IS BELOW THE CY 1975 LEVEL OF \$250 MILLION AND CONSTITUTES IN OUR VIEW THE MINIMUM NECESSARY TO MEET POLITICAL IMPERATIVES AND TO INDUCE OTHER DONORS TO PROVIDE CONTINUED B/P ASSISTANCE. (IN FACT, U.S. HAS BEEN PRESSURING OTHER DONORS TO REALLOCATE A PORTION OF THEIR COMMITMENTS FROM PROJECT ASSISTANCE TO B/P ASSISTANCE).

WHILE RECOGNIZING THAT B/P SUPPORT IS THE PRIMARY OBJECTIVE OF U.S. IMPORT FINANCING WE INTEND TO LIMIT SUCH FINANCING AS FAR AS POSSIBLE TO ESSENTIAL INTERMEDIATE AND CAPITAL GOODS SO AS TO MAXIMIZE THE CIP'S IMPACT ON EGYPT'S ECONOMIC GROWTH. WE ALSO WILL ENCOURAGE INCREASING USE OF THE CIP TO FINANCE A BROAD RANGE OF CAPITAL IMPORTS WHICH OTHERWISE WOULD BE FINANCED BY RELATIVELY SHORT-TERM SUPPLIER CREDITS INCREASING EGYPT'S DEBT SERVICING BURDEN OVER THE

CONFIDENTIAL

CONFIDENTIAL

PAGE 02 CAIRO 07303 02 OF 02 251400Z

NEXT FEW YEARS.

6. FY 1976 PROJECT AID

GIVEN A PROJECT ASSISTANCE LEVEL OF \$200 MILLION, WE PROPOSE THE FOLLOWING PROJECTS FOR FY 1976:

ISMAILIA POWER PLANT	\$70 MILLION
SUEZ AREA CEMENT PLANT	70 MILLION
GRAIN STORAGE AND DISTRIBUTION	30 MILLION
ALEXANDRIA PORT EQUIPMENT	15 MILLION
SCIENTIFIC AND RESEARCH EQUIPMENT	7 MILLION
TECHNOLOGY TRANSFER AND MANPOWER DEVELOPMENT	2 MILLION
FEASIBILITY STUDIES	2.5 MILLION
WATER MANAGEMENT PROJECT	.5 MILLION
RURAL HEALTH PROJECT	.5 MILLION

PORT SAID MINE CLEARANCE                      2.5 MILLION

MAJOR CHANGES FROM OUR SUBMISSION FOR THE FY 1976 CONGRESSIONAL PRESENTATION (CAIRO 2015 AND 2052) ARE: (A) FUNDING OF ISMAILI

A

POWER PLANT IN FY 1976 RATHER THAN FY 1975; (B) REDUCTION IN FY 1976 FUNDING FOR GRAIN STORAGE AND DISTRIBUTION FROM \$60 MILLION TO \$30 MILLION; (C) REPLACEMENT OF CARGO HANDLING EQUIPMENT AT PORT SAID BY \$15 MILLION OF EQUIPMENT FOR ALEXANDRIA PORT AND (D) DEFERRAL OF AGRICULTURAL EQUIPMENT FINANCING FROM FY 1976 TO FY 77.

WE BELIEVE THAT SUFFICIENT INFORMATION ON MOST OF THE ACTIVITIES IS AVAILABLE IN AID/W FOR PURPOSES OF THE JULY 29 NESA BUREAU REVIEW. THIS INFORMATION WILL BE FURTHER DEVELOPED FOR THE FY 1977 CONGRESSIONAL PRESENTATION. FOLLOWING ARE COMMENTS ON ACTIVITIES WHICH WERE NOT INCLUDED IN THE FY 1976 CONGRESSIONAL PRESENTATION.

CONFIDENTIAL

CONFIDENTIAL

PAGE 03 CAIRO 07303 02 OF 02 251400Z

(A) ALEXANDRIA PORT EQUIPMENT -

IT IS CLEAR FROM THE WORK OF THE AID-FINANCED PORT CONSULTANT AS WELL AS FROM IBRD STUDIES THAT WHILE LARGE SCALE IMPROVEMENTS IN THE PORT OF ALEXANDRIA ARE NECESSARY TO INCREASE TOTAL THROUGH-PUT, CONSIDERABLE IMPROVEMENT IN THE HANDLING CAPACITY OF THE PORT CAN BE ACCOMPLISHED IN THE INTERIM BY THE PROVISION OF NEW EQUIPMENT. THE MATERIAL AVAILABLE TO AID/W IN THE CONSULTANT'S REPORT AND IN THE IBRD STUDIES PROVIDES BASIS FOR INITIAL REVIEW OF THIS PROGRAM.

(B) WATER MANAGEMENT -

THIS ACTIVITY WAS DISCUSSED IN CAIRO 2015. CURRENT PLANS ARE TO BRING AN IN-DEPTH TEAM TO EGYPT THIS SUMMER FOR PURPOSE OF PROJECT IDENTIFICATION AND INITIAL DESIGN. ALLOCATION OF \$0.5 MILLION WOULD PERMIT INITIATION OF THE PROJECT IN FY 1976 WITH FUNDING OF MAJOR PROJECT COMPONENTS TO FOLLOW IN FY 1977.

(C) RURAL HELTH-

A TEAM OF AID/W HEALTH SPECIALISTS IS COMING TO CAIRO IN EARLY AUGUST TO ASSIST MISSION IN DEVELOPMENT OF A PROJECT DESIGNED TO INDUCE A REORIENTATION OF THE GOE RURAL HEALTH CARE DELIVERY SYSTEM FROM A PASSIVE CURATIVE HEALTH APPROACH TO A MORE AGGRESSIVE PREVENTIVE HEALTH APPROACH WHICH WOULD INTEGRATE NUTRITION, FAMILY PLANNING AND HEALTH EDUCATION WITH PRIMARY HEALTH CARE. AS IN THE CASE OF WATER MANAGEMENT, FY 1976 FUNDING OF \$0.5 MILLION WOULD PERMIT AN EARLY START ON THIS PROJECT.

D. PORT SAID MINE CLEARANCE

ASSUMING THAT MINE CLEARANCE OPERATION FOR WHICH 15 DAY  
NOTIFICATION IS BEING SUBMITTED TO CONGRESS WILL BE APPROVED,  
\$2.5 MILLION HAVE BEEN RESERVED FOR THAT PURPOSE FROM FY 76  
SA FUNDS.  
EILTS

CONFIDENTIAL

NNN

## Message Attributes

**Automatic DecapTIONing:** Z  
**Capture Date:** 01 JAN 1994  
**Channel Indicators:** n/a  
**Current Classification:** UNCLASSIFIED  
**Concepts:** FOREIGN RELATIONS, INTELLIGENCE ASSESSMENTS, POLITICAL SITUATION, FOREIGN ASSISTANCE PROGRAMS  
**Control Number:** n/a  
**Copy:** SINGLE  
**Draft Date:** 25 JUL 1975  
**DecapTION Date:** 28 MAY 2004  
**DecapTION Note:** 25 YEAR REVIEW  
**Disposition Action:** RELEASED  
**Disposition Approved on Date:**  
**Disposition Authority:** ShawDG  
**Disposition Case Number:** n/a  
**Disposition Comment:** 25 YEAR REVIEW  
**Disposition Date:** 28 MAY 2004  
**Disposition Event:**  
**Disposition History:** n/a  
**Disposition Reason:**  
**Disposition Remarks:**  
**Document Number:** 1975CAIRO07303  
**Document Source:** CORE  
**Document Unique ID:** 00  
**Drafter:** n/a  
**Enclosure:** n/a  
**Executive Order:** GS  
**Errors:** N/A  
**Film Number:** D750257-0459  
**From:** CAIRO  
**Handling Restrictions:** n/a  
**Image Path:**  
**ISecure:** 1  
**Legacy Key:** link1975/newtext/t19750718/aaaaaqhi.tel  
**Line Count:** 284  
**Locator:** TEXT ON-LINE, ON MICROFILM  
**Office:** ACTION SS  
**Original Classification:** CONFIDENTIAL  
**Original Handling Restrictions:** EXDIS  
**Original Previous Classification:** n/a  
**Original Previous Handling Restrictions:** n/a  
**Page Count:** 6  
**Previous Channel Indicators:** n/a  
**Previous Classification:** CONFIDENTIAL  
**Previous Handling Restrictions:** EXDIS  
**Reference:** 75 STATE 169799  
**Review Action:** RELEASED, APPROVED  
**Review Authority:** ShawDG  
**Review Comment:** n/a  
**Review Content Flags:**  
**Review Date:** 30 JUL 2003  
**Review Event:**  
**Review Exemptions:** n/a  
**Review History:** RELEASED <30 JUL 2003 by MartinML>; APPROVED <23 DEC 2003 by ShawDG>  
**Review Markings:**

Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
06 JUL 2006

**Review Media Identifier:**  
**Review Referrals:** n/a  
**Review Release Date:** n/a  
**Review Release Event:** n/a  
**Review Transfer Date:**  
**Review Withdrawn Fields:** n/a  
**Secure:** OPEN  
**Status:** NATIVE  
**Subject:** FY 1977 PROGRAM SUBMISSION  
**TAGS:** PFOR, PINT, EAID, US, EG  
**To:** STATE  
**Type:** TE  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006